

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



CALIFORNIA DRY BEAN ADVISORY BOARD

AUDIT REPORT #09-078

CALIFORNIA DRY BEAN ADVISORY BOARD
AUDIT REPORT

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Evelyn Yee, CPA
Melma Dizon

Audit Chief
Assistant Audit Chief
Audit Supervisor
Auditor

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09-078

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Mr. Robert Maxie, Branch Chief
Marketing Services
California Department of Food and Agriculture
1220 N Street
Sacramento, California 95814

The California Department of Food and Agriculture (CDFA), Division of Marketing Services, Marketing Branch, requested the Audit Office to perform a limited scope fiscal and compliance audit of the California Dry Bean Advisory Board, which is managed by Monfort Management Services, Inc. (Monfort Management).

The objective of this audit was to determine whether certain activities and expenditures incurred by the Marketing Board comply with the law and are within the Board's authority. In addition, our office was to identify any internal control weaknesses we noted upon examination of the Marketing Board's financial records.

The audit scope was limited by the Marketing Branch as it related to certain expenditures. Most notably, the Marketing Branch has allowed the State's marketing orders to implement a travel policy that can be applied retroactively to the audit period. This travel policy allows for the State's marketing orders to incur lodging and per diem expenses up to three times the current State rate. Therefore, our office has been instructed to only report amounts that exceeded this threshold.

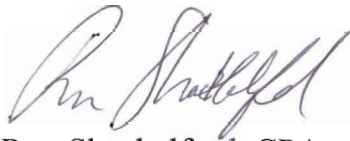
Furthermore, our audit scope was limited to May 1, 2006 through April 30, 2009. Although the scope was limited to these years, our office expanded the scope to include information that covered other years if it was readily accessible and/or may have assisted us in understanding a particular issue.

To accomplish the overall audit objectives, our audit methodology consisted of, but was not all inclusive of, reviewing the Marketing Board's:

- Compliance with various rules and regulations
- Employee and Policy Manuals
- Internal controls
- General ledger detail and various financial related documents
- Board and Committee minutes
- Expenses and supporting documentation, including credit card statements and corresponding receipts for each charge
- Contracts
- Research grants
- Payroll documents

We conducted our audit in accordance with Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States.

This audit report is intended solely for the information and use of the management of the CDFA and the California Dry Bean Advisory Board and should not be used for any other purpose.

A handwritten signature in dark ink, appearing to read 'Ron Shackelford', is positioned above the printed name.

Ron Shackelford, CPA
Chief, Audit Office
(916) 651-8774

GENERAL BACKGROUND

Monfort Management Services, Inc. (Monfort Management) manages the following 11 Marketing Boards:

1. California Alfalfa Seed Advisory Board
2. California Cantaloupe Advisory Board
3. California Celery Research Advisory Board
4. California Citrus Nursery Board
5. California Cling Peach Board
6. California Dry Bean Advisory Board
7. California Fresh Carrot Advisory Board
8. California Melon Research Board
9. California Pepper Commission
10. California Potato Research Advisory Board
11. California Winegrape Inspection Advisory Board

On an annual basis, each entity contracts separately with Monfort Management for management and financial services. The services include, but are not limited to bookkeeping, working with industry and researchers, etc. These contracts are approved separately by each Marketing Board's Board of Directors. All 11 Boards are separate legal entities from one other. Furthermore, each entity pays for an independent financial statement audit of its operations. According to Monfort Management, one bank account (TABCOMP Marketing Order Fund) is used to manage all of the entities' funds. Therefore, revenues are deposited to this account and expenses are paid with this account. Monfort Management tracks each entity's revenues and expenses separately to ensure a proper accounting of the entity's funds. Additionally, each entity has a different fiscal year-end. Therefore, with our established audit scope of May 1, 2006 through April 30, 2009, our office reviewed portions of fiscal years equating to three years of documentation rather than three whole fiscal years.

Additionally, California Dry Bean Advisory Board receives reimbursements for qualified expenses through the United States Department of Agriculture's Market Access Program (MAP.) Our office reviewed these MAP reimbursed expenses in their entirety and noted any issues involved, since MAP partially reimbursed the expenses and the remainder was paid with assessment revenue.

EXECUTIVE SUMMARY

The California Department of Food and Agriculture (CDFA), Division of Marketing Services, Marketing Branch, requested the CDFA Audit Office to perform a limited scope fiscal and compliance audit of the California Dry Bean Advisory Board to determine whether certain activities and expenditures incurred comply with the law and are within the Board's authority. In order to accomplish this, our primary focus was the Marketing Board's expenses and compliance with various rules and regulations. The following administrative weaknesses were noted:

- Operating checks paid for expenses that were not always supported with an accompanying receipt. Our office also noted instances where the related expenditure was supported with a receipt; however, the receipt was not detailed enough to determine the nature of the item or service purchased.
- When reviewing travel reimbursement claims of Monfort Management employees, our office noted that reimbursement claims for some business meals with business associates were based on the number of attendees multiplied by the allowed per diem rate, rather than the actual amount paid for the meals. Additionally, receipts were not always provided as proof that the meals claimed occurred.
- The Marketing Board does not always have proper internal controls over its research grants. The funding paid to researchers is based on an invoice, and the final payment is paid when the final research report is completed. Our audit sample indicates the Marketing Board did not require grantees to provide progress reports or a final accounting over the grant money awarded to them. Timelier oversight would help ensure that all amounts paid for research were used for their intended purposes.
- Our office was not provided with any written documentation or policy relating to the methodology used in determining the various allocation methods, indicating when each method shall be used for the shared cost. It appears that depending on the type of expense and the number of entities that benefitted from the expense, a different allocation method was used.

KEY RECOMMENDATIONS

1. *The Marketing Board should ensure that Monfort Management continues its efforts to support all expenses with an itemized receipt or invoice.*
2. *Monfort Management should develop a system which clearly tracks the expenses MAP reimbursed versus the expenses the Marketing Board paid for with assessment revenues.*
3. *The Marketing Board should ensure that Monfort Management revises its reimbursement claim policy, and require a detailed receipt accompany any request for meal reimbursement with a business associate.*
4. *The Marketing Board should ensure that Monfort Management improves its internal controls over grant awards by requiring grantees to provide additional financial information, such as progress reports and a final accounting of expenses applied against the grant. The purpose of these reports is to improve monitoring of grant awards and provide more transparency over actual expenditures billed by researchers to the grant contract.*
5. *Monfort Management should develop written policies that document the methodology to be used in allocating shared costs among the entities it manages.*

REPORTABLE FINDINGS

PAYMENTS MADE BY OPERATING CHECKS

Our office noted instances when expenses paid by operating checks were not always accompanied by receipts that would ultimately justify the payments made. Upon examination, our office noted \$14,134 in payments made by operating checks that were not supported with any receipts. This also includes the 33 instances noted below in Employee Reimbursement Claims. Although a portion of this amount was reimbursed by the Federal Market Access Program (MAP), Monfort Management was unable to provide detail to clearly define which of these unsupported expenses was ultimately paid with the Marketing Board's assessment revenues versus that from MAP reimbursements. In these instances, we noted the expense in its entirety.

Based on the vendor name and description provided, these expenses appear to be related to meeting expenses, reimbursement for travel expenses, and food and beverage expenses. However, without supporting documentation, our office cannot determine whether the charges were reasonable, appropriate, or business related. Additionally, our office is unable to determine whether these expenses were thoroughly reviewed for appropriateness prior to payment.

Furthermore, our office noted instances when there was a credit card receipt or hotel folio for the reimbursed expenses, but no detailed receipt indicating the service or items purchased. These receipts only indicate the final total amount charged and do not indicate the specific service or items purchased. Again, based on vendor name, most of these expenses were food and beverage related.

Recommendations

- 1. The Marketing Board should ensure that Monfort Management continues its efforts to support all expenses with an itemized receipt or invoice.*
- 2. Monfort Management should develop a system which clearly tracks the expenses MAP reimbursed versus the expenses the Marketing Board paid for with assessment revenues.*

EMPLOYEE REIMBURSEMENT CLAIMS

Upon reviewing Monfort Management's employee reimbursement claims for all of the Marketing Boards, our office noted receipts were not always provided when Monfort Management employees requested reimbursement for business meals with business associates. In the 33 instances observed, there was no receipt to support the expense sought for reimbursement; therefore, our office is unable to determine whether the actual amount was claimed and whether the meal occurred. Monfort Management does not require receipts when reimbursements are based upon the number of people and the allowed per diem amount. The detailed receipt clearly identifies the items or services purchased. Without a detailed receipt, which provides transparency to the nature of the expense, our office cannot attest to the reasonableness of the expenditure.

Recommendation

3. *The Marketing Board should ensure that Monfort Management revises its reimbursement claim policy and require a detailed receipt accompany any request for meal reimbursement with a business associate.*

INTERNAL CONTROL WEAKNESSES IN RESEARCH GRANT CONTRACTS

The California Dry Bean Advisory Board awards research grants to various organizations for research relating to its particular crop. Based on the audited financial statements provided to our office, the Marketing Board annually awarded amounts ranging from \$116,000 to \$122,000. Based on our analysis and discussion with Monfort Management, our office noted that a detailed final accounting of the grant money awarded to the organizations was not required prior to issuance of the final payment of the grant. Instead, the researchers provided an invoice to the Marketing Board stating only the balance due to the researchers. Our office noted these invoices do not have sufficient detail as to how the grant money was spent. The invoices only indicated the award amount and the balance due from the Marketing Board.

The Marketing Board should hold the grantees more accountable for the funds awarded, to ensure the funds are used solely for the intended purpose. Although a budget is included in the grant contract, the Marketing Board should not rely only on the budget presented to account for the final expenses, since the actual expenditures incurred could vary significantly from the budgeted amount. Our office recommends the Marketing Board require grantees to provide progress reports and a final accounting for the grant funds awarded to them. Progress reports are useful analytical tools that provide supplementary information regarding the status of the grant projects and could possibly identify any potential concerns or questions the Marketing Board may have. In addition, a final accounting of actual expenses would allow the Marketing Board to determine whether use of the grant award was for the intended purpose and whether any grant money remained unspent. Ultimately, these reports will improve internal controls by providing more transparency over expenditures incurred by the researchers.

Recommendation

4. *The Marketing Board should ensure that Monfort Management improves its internal controls over grant awards by requiring grantees to provide additional financial information, such as progress reports and a final accounting of expenses applied against the grant. The purpose of these reports is to improve monitoring of grant awards and provide more transparency over actual expenditures billed by researchers to the grant contract.*

COST ALLOCATION

Our office was not provided with any written documentation or policy by Monfort Management relating to the methodology used in determining the various cost allocation methods for shared costs. It appears that depending on the type of expense and the number of entities that benefitted from the expense, a different allocation method was used. As noted earlier, Monfort Management has an annual contract with each entity for management and

financial services. According to the contracts, in addition to the monthly service fee, Monfort Management will invoice the entity for other expenses, such as copies, faxes, etc. Our office noted these expenses were either invoiced to the entity for the entire amount when the cost was incurred by the specific entity or for a portion of the cost when other entities also incurred the cost. Our office also noted that Monfort Management used various methods to determine the allocation percentage. There were instances when the cost was allocated equally among the entities, or based on the average percentage of each entity's funds of the total funds held in the TABCOMP bank account. There were other methods used, for which our office could not determine the basis of measurement. The methods used are determined at the discretion of Monfort Management based on the type of expense. Without established policies or written documentation specifying the methodology to be used in allocating costs, inconsistencies in billing may occur since there are varying methods from which to choose when allocating shared costs to different entities.

Recommendation

5. *Monfort Management should develop written policies that document the methodology to be used in allocating shared costs among the entities it manages.*

CALIFORNIA DRY BEAN ADVISORY BOARD'S RESPONSE



531-D N. ALTA AVE. • DINUBA, CA 93618-3203 • (559) 591-4866 • FAX (559) 591-5744

December 15, 2009

Ron Shackelford, CPA
Chief, CDFA Audit Office
1220 N Street, Room 344
Sacramento, CA 95814

Dear Mr. Shackelford,

Please accept my apologies for the tardiness of this response, but as you know, you have given our firm several recommendations to the various boards and we felt we needed to discuss some of the responses with the Marketing Branch, and their busy schedule kept us from responding as soon as we might have preferred. Following are the responses to your recommendations:

Response to Recommendation regarding Receipts and use of Credit Cards, including reimbursement for Expense Claims (recommendations 1 and 3):

Monfort Management will henceforth not pay any expense claims or credit card statements without first obtaining explanatory receipts for expenses incurred.

Response to Recommendation regarding FAS/MAP reimbursements of Board Expenses:

Monfort Management (and the sub-contractors working with FAS/MAP) will strive to develop a system whereby the expenses expected to be reimbursed through the MAP Program will be so delineated within the bookkeeping system. (**NOTE:** We are not always sure just which expenses the Board will be reimbursed for, and that may become a problem, but we will attempt to overcome it.)

Response to Recommendation regarding Cost Allocation:

When costs are incurred that should be divided among the Boards/Commission managed by Monfort Management Services, there are several scenarios that can affect the distribution of the expenses. In most cases, when the expense affects all of the Boards/Commission, a formula has been developed to divide the expenses as proportionately as possible, based on size of budget, size of Board and likely usefulness to the Boards. That formula is as follows:



Alfalfa Seed, Pepper, Celery, Melon, Potato and Cantaloupe: 5% each; Citrus Nursery: 10%
Cling Peach, Dry Bean, Fresh Carrot, Winegrape Inspection: 15% each

There are other costs that are incurred that logically should be borne **equally** by all of the Boards and/or Commission. That determination will be made on a case by case basis by general agreement of the Board managers.

At other times costs are incurred that don't affect all of the Boards/Commission, and in those cases, a determination will be made by the managers of the Boards/Commission involved to divide the costs rationally, based on the value of the costs to each Board/Commission affected.

Response to Recommendation regarding obtaining Financial Reports on UC Contracts


Because requiring the University of California to provide a financial accounting on every research contract would eventually affect every Advisory Board, Council and Commission operating under the supervision of the Marketing Branch, we have discussed this recommendation with other Advisory Boards and the Marketing Branch and have learned that the issue is to be put before the California Commodity Committee (CCC), a group that represents the majority of the advisory boards in their relationship with the University. Since the Marketing Branch also participates in the CCC, we intend to await the outcome of that investigation, and will abide by their recommendation.

Since you asked for a timetable for these recommendations to be implemented, we can say that all except for the last one will be immediate, while we'll have to wait until CCC develops a policy to follow that recommendation. We thank you for the professional way in which your staff conducted the audits, and look forward to receiving your final report.

Respectfully submitted,



Nathan Sano
Manager


Larry Chesini,
Chairman

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the California Dry Bean Advisory Board for its review and response. We have reviewed the response. To provide clarity and perspective, we are including additional comments to the Marketing Board's response to our audit report section Internal Control Weaknesses in Research Grant Contracts.

The Marketing Board stated in its response that it will abide by the recommendation and subsequent policy of the California Commodity Committee. However, the recommendation and policy determined by the Committee may or may not be sufficient.

Our recommendation strengthens the internal control for monitoring research grant contracts of the Marketing Board. The Marketing Board has a duty to ensure that all its money is properly spent. The Board should monitor the progress of work to ensure that services are performed according to the quality, quantity, objectives, timeframes, and manner specified in the contract; e.g., review progress reports and interim products, if applicable. Also, the progress reports may have valuable information regarding equipment purchased to conduct the research. Knowing if a purchase occurred and who owns title at the end of a contract would be one example of why a progress report is beneficial.

It should be noted that these reports can be easily obtained through the University's accounting department. Progress reports are standard practice for any University receiving State monies and the review of these reports is a basic internal control that should be implemented by the Board.

DISPOSITION OF AUDIT RESULTS

The findings in this report are based on fieldwork my staff performed June 8-19, 2009. My staff met with management on June 19, 2009 for a preliminary exit to discuss the findings and recommendations, as well as other issues.

This report is intended for the CDFA and the Marketing Board for their review and action if necessary. However, this report is public document and its distribution is not restricted.

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	Chairman, California Dry Bean Advisory Board
1	Director, CDFA Marketing Services Division
1	Branch Chief, CDFA Marketing Branch
1	Chief Counsel, CDFA Legal Office
2	Chief, Audit Office